The Real Estate ANALYST

NOVEMBER 30
1948

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values. Current Studies. Surveys. Forecasts

Volume XVII

Number 55

Copyright 1948 - by ROY WENZLICK & CO - Saint Louis

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

NONFARM HOUSING REQUIREMENTS

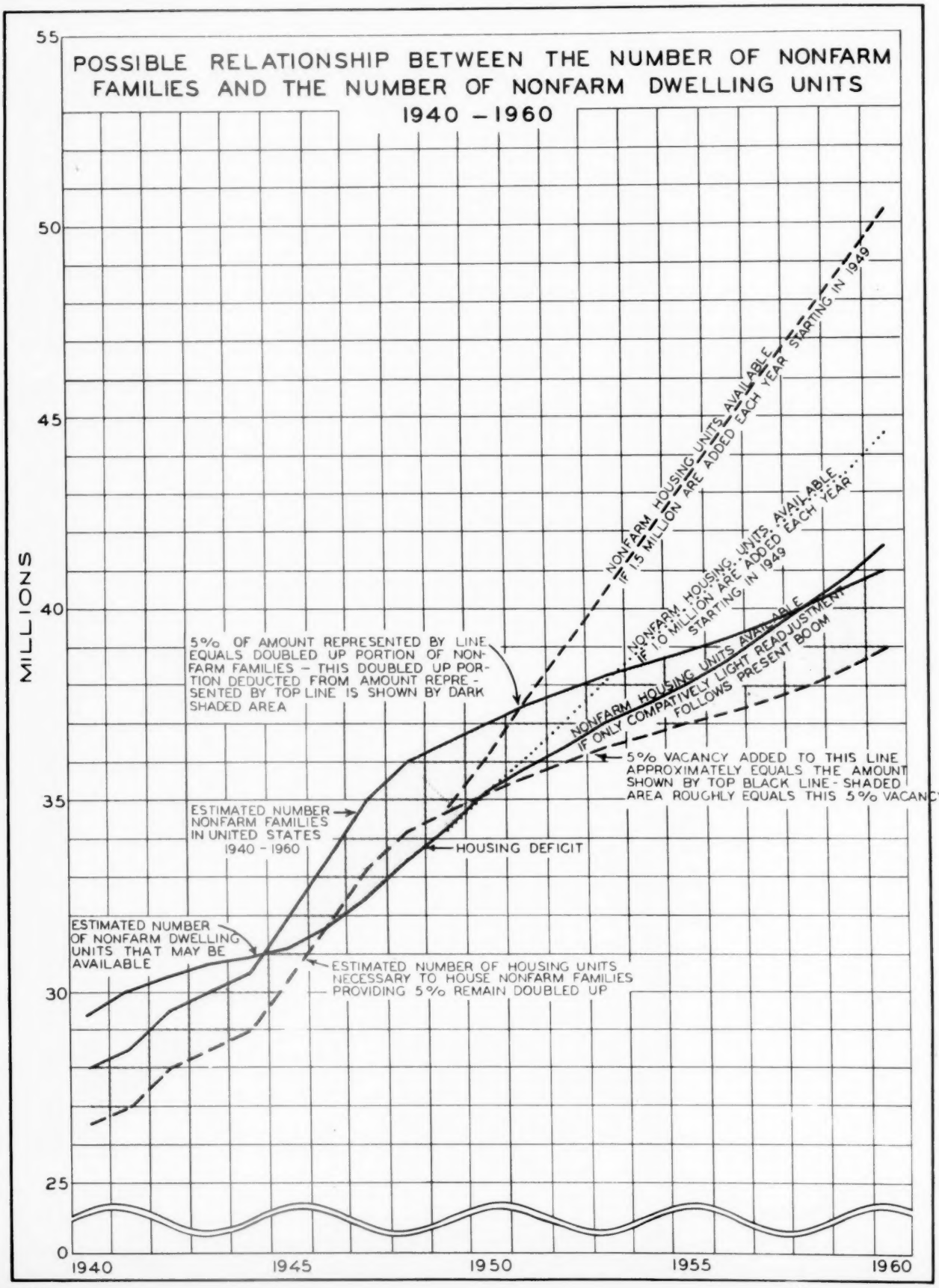
DURING the past few years there have been a great many estimates made by various housing experts throughout the country regarding the number of nonfarm housing units necessary to house our population adequately. Most of these estimates have ranged from 1,000,000 to 1,450,000 units per year for the next ten to fifteen years.

It is our belief that these figures have very little chance, if any, for fulfillment. To begin with, the tremendous quantities of additional materials and labor necessary make this goal an extremely difficult one from the physical standpoint. The problem of financing this volume of construction, particularly at today's high costs, presents another formidable obstacle (and costs would not be likely to drop if the present activity is increased from ten to fifty per cent). Possibly the most important factor, and the one that allows the greatest margin for error, is the amount of housing actually needed.

In arriving at this estimate, the word "adequate" seems to be the stumbling block. Naturally, what may be adequate housing for one family is not adequate for all others. What was "adequate" housing in times of depression is inadequate at today's level of high incomes. What is inadequate today may do quite nicely in the event we enter a recession. Houses that are inadequate or substandard in some respects may have compensating features that are above standard. The words "adequate" and "substandard" when applied to housing are too inexact and, in recent years, have acquired too much emotional connotation to be of much help in arriving at a reliable estimate of our housing needs.

In estimating our future housing needs, the first consideration is the number of units required, and the second is the quality of these units. If we assume that normally about 5 per cent of our nonfarm families will remain doubled up, even with housing units available, our present needs are in the neighborhood of 34.2 million nonfarm units. (In 1940 there were 6.6 per cent of our married couples doubled up, even though there were nearly 2 million vacant units.) By taking the 1947 census figures on the total number of nonfarm housing units in the country and adding the number of new units built since then and deducting for uninhabitable, seasonal and demolished units, we arrive at an estimated 33.4 million units available today - or 800,000 short. If residential building and new family formation continue at a somewhat slower rate, and indications are that they will, the absolute shortage will end about 1951. In other words, if nothing happens to upset the present trends, by about 1951 there should be enough housing units to go around.

(cont. on page 469)


POSSIBLE RELATIONSHIP BETWEEN THE NUMBER OF NONFARM FAMILIES AND THE NUMBER OF NONFARM DWELLING UNITS
1940 – 1960
MILLIONS
55
50
45
40
35
30
25
0
1940
1945
1950
1955
1960
NONFARM HOUSING UNITS AVAILABLE IF 1.5 MILLION ARE ADDED EACH YEAR STARTING IN 1949
NONFARM HOUSING UNITS AVAILABLE IF 1.0 MILLION ARE ADDED EACH YEAR STARTING IN 1949
NONFARM HOUSING UNITS AVAILABLE IF ONLY COMPATIVELY LIGHT READJUSTMENT FOLLOWS PRESENT BOOM
5% OF AMOUNT REPRESENTED BY LINE EQUALS DOUBLED UP PORTION OF NONFARM FAMILIES – THIS DOUBLED UP PORTION DEDUCTED FROM AMOUNT REPRESENTED BY TOP LINE IS SHOWN BY DARK SHADED AREA
5% VACANCY ADDED TO THIS LINE APPROXIMATELY EQUALS THE AMOUNT SHOWN BY TOP BLACK LINE - SHADED AREA ROUGHLY EQUALS THIS 5% VACANCY
ESTIMATED NUMBER NONFARM FAMILIES IN UNITED STATES 1940 - 1960
HOUSING DEFICIT
ESTIMATED NUMBER OF NONFARM DWELLING UNITS THAT MAY BE AVAILABLE
ESTIMATED NUMBER OF HOUSING UNITS NECESSARY TO HOUSE NONFARM FAMILIES PROVIDING 5% REMAIN DOUBLED UP

NONFARM HOUSING REQUIREMENTS

(cont. from page 467)

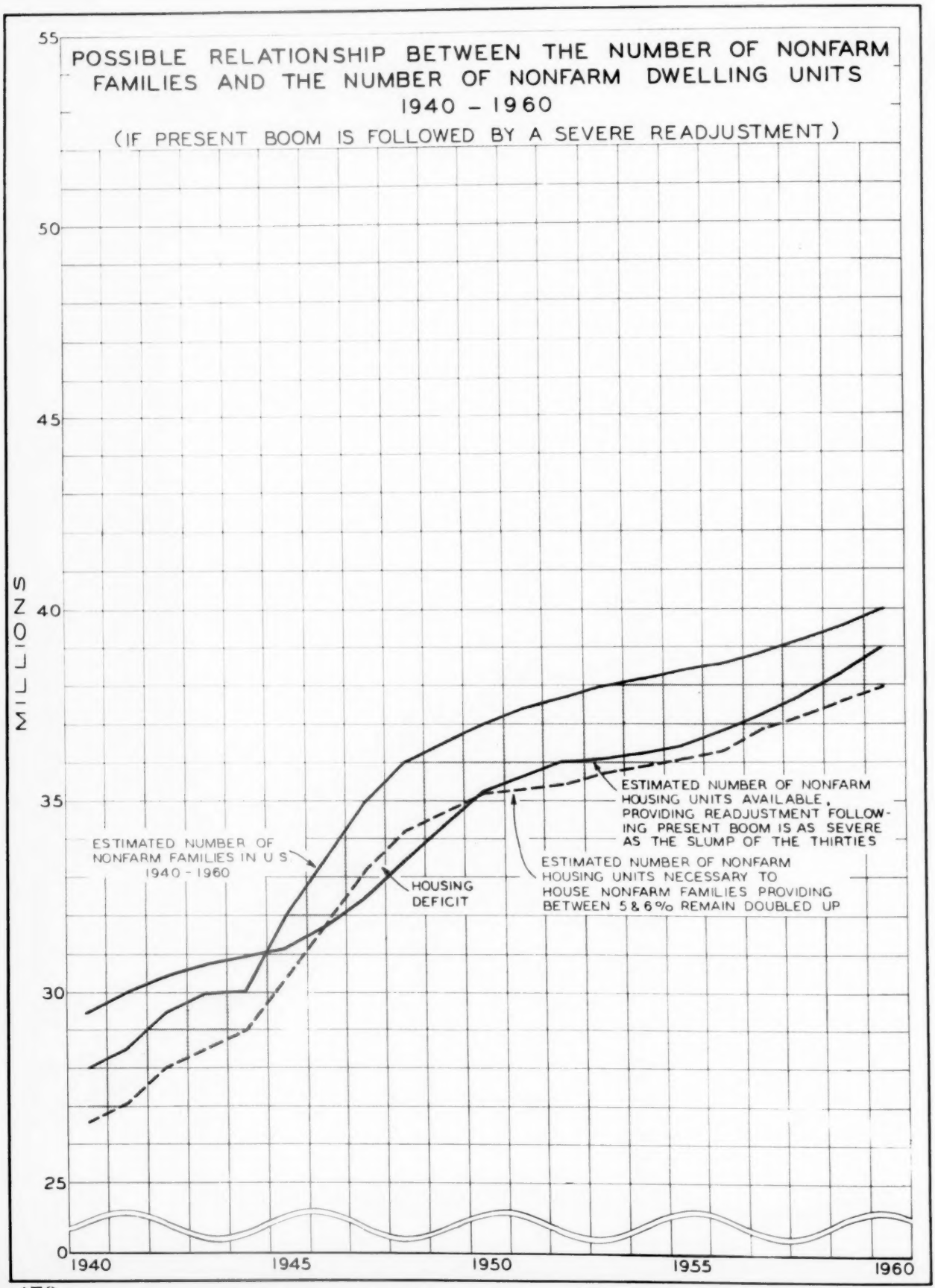
Since most of these new units will continue to be relatively high-price or high-rent, there is a distinct possibility that even though the actual number of units will technically end the shortage, there will be many families that are still in need of cheaper quarters and must remain doubled up or assume financial obligations beyond their means.

When considering the quality of this housing, we take the Bureau of the Census report of 1947 dealing with the state of repair of nonfarm units. The Census Bureau definition of "in need of major repairs" includes those dwelling units which require major repair or replacement of floors, roof, plaster, walls, foundations or other major structural components. This report lists 2.7 million units as being in need of major repairs. There is no accurate way to ascertain how many of these units will have to be replaced. All but 300,000 were occupied at the time the survey was made so it is assumed that approximately 90 per cent of them were at least inhabitable.

These 2.7 million nonfarm units in need of major repair form the core around which the battle over "standard or substandard" housing rages. Whether or not these represent substandard units is not for this report to decide. The fact remains that nearly 2.4 million of them were occupied by tenants paying rent, or by owners paying taxes (perhaps at irregular intervals) and, therefore, apparently still retained some economic value. As long as these units remain occupied they must be included in the housing inventory; nor can they be arbitrarily dropped at some future date on preconceived ideas as to how long their economic life will last. If we had 50 million nonfarm housing units, rents would be very low and there would be an enormous number of vacancies. However, there would still be many families living in rickety low-cost units because they could not afford a better place. Unless we decide to subsidize the housing of our very low income groups, these low-rent, dilapidated units, miserable as some of them are, will continue to play an important part in providing shelter for families who can afford nothing better. Therefore in compiling this estimate of the housing necessary to take care of our growing population, only demolished, seasonal and uninhabitable units are excluded. The demolitions average about 40,000 per year and seasonal and uninhabitable units average about 3 per cent of the total.

The chart on page 468 is not drawn for the purpose of forecasting the future relationship between housing units and families. It is drawn to show what could happen, provided that the rate of new family formation follows its indicated course, the 5 per cent doubling up factor remains approximately the same, and the rate of residential construction does not go into a nose dive as it did in the early thirties. The heavy black line represents the estimated growth in the number of nonfarm families from 1940 to 1960. The dotted black line represents the number of housing units necessary to house these families, provided 5 per cent of them remain doubled up. The shaded space between the two black lines represents the 5 per cent of the families that are doubled up and also shows roughly a 5 per cent vacancy factor above those housing units represented by the dotted black line. In other words, the solid black line representing the total number of families may also be said to rep-

(cont. on page 471)


POSSIBLE RELATIONSHIP BETWEEN THE NUMBER OF NONFARM FAMILIES AND THE NUMBER OF NONFARM DWELLING UNITS 1940 – 1960
(IF PRESENT BOOM IS FOLLOWED BY A SEVERE READJUSTMENT)
MILLIONS
55
50
45
40
35
30
25
0
1940
1945
1950
1955
1960
ESTIMATED NUMBER OF NONFARM FAMILIES IN U.S. 1940 - 1960
HOUSING DEFICIT
ESTIMATED NUMBER OF NONFARM HOUSING UNITS AVAILABLE, PROVIDING READJUSTMENT FOLLOWING PRESENT BOOM IS AS SEVERE AS THE SLUMP OF THE THIRTIES
ESTIMATED NUMBER OF NONFARM HOUSING UNITS NECESSARY TO HOUSE NONFARM FAMILIES PROVIDING BETWEEN 5 & 6% REMAIN DOUBLED UP

NONFARM HOUSING REQUIREMENTS

(cont. from page 469)

resent the approximate number of houses necessary to shelter these families and provide a 5 per cent vacancy allowance so long as there is a normal amount of doubling up. The dotted black line represents the minimum number of houses necessary to shelter these families (with normal doubling up and no vacancy allowance).

The solid red line shows the possible course that may be followed by the total number of nonfarm housing units. The amounts shown by this line have allowed for 40,000 demolitions a year and for a 3 per cent deduction for uninhabitable and seasonal units. Judging by past experience, this line is most optimistic. If the housing industry goes through the wringer again in the middle fifties as it did in the thirties, the number of available housing units will not be nearly so great (see chart on page 470). If this happens, however, the accompanying business recession will, no doubt, cause more doubling up - and drastically slow the formation of new families - and no acute housing shortage will take place at that time.

Thus we see that by 1960 the following situation is possible: We will have about 41.0 million nonfarm families. This figure is very close to the estimate published by the Bureau of the Census in 1947. With 5 per cent of these families doubled up, the number of housing units necessary to shelter them will be 39.0 million. If the building industry undergoes a less severe adjustment than it did in the thirties - for example, only 50 per cent as great - then by 1960 we will have approximately 41.6 million units when 39.0 million is the minimum amount needed. This will leave about 6-1/2 per cent of the units vacant.

By following the dotted red line on this chart we see the number of nonfarm housing units available at the end of each year providing 1,000,000 new units are built annually. This line likewise allows for 40,000 demolitions each year and figures 3 per cent of the total number of units as either seasonal or uninhabitable. We see from this line that if we started building a million units annually in 1949, by 1953 we would have restored the 5 per cent vacancy considered desirable, and that by 1960 we would have nearly 45.0 million nonfarm units to house 41 million families. If we are to keep the number of our housing units at virtually the same level as the number of families, we must do either one of two things: 1. demolish 3,800,000 units between 1953 and 1960; or 2. scale down our building from 1,000,000 units to around 400,000 units per year during these 7 years. Demolitions on this scale would amount to an average of 550,000 units a year, or over 15 times the demolition rate of the thirties. This hardly seems plausible.

If we follow the course of the dashed red line and build 1.5 million units a year starting in 1949, we would restore the 5 per cent vacancy factor some time between 1951 and 1952. By 1960 we would have 50.36 million housing units to house 41 million nonfarm families. To maintain the level of housing at the same level as the number of families, we would have to drastically cut our residential construction or by 1960 demolish 9.70 million units (over 1.14 million units per year).

There are a number of things that can (and probably will) throw these speculations out of kilter. For one, there is the possibility of the partial or complete de-

(cont. on page 472)

NONFARM HOUSING REQUIREMENTS

(cont. from page 471)

control of rents. No one can say when it will come, or how liberal the decontrol will be. There is certainly a very strong possibility, however, that some time between now and 1960 the control of rents will be altered considerably. There is also the probability of a depression of more or less serious proportions. There is a great deal of disagreement among economists regarding the timing and extent of this depression, but some eventual readjustment seems unavoidable. When it comes, it is almost certain to cause a drastic decrease in residential construction and in the rate of new family formation and an increase in the number of doubled up families. The result of changes of this nature is charted on page 470. In this chart it is assumed that the building rate and the formation of new families will slow to approximately the same rate of the thirties and that the doubling up of families will increase to 6 per cent for a few years.

If this takes place, there will be about 40.0 million nonfarm families by 1960, with 38.0 million units necessary to house them, and slightly over 39.0 million units available.

A study of this type is certainly subject to the possibility of considerable error, particularly when it is spread over a 12-year span. Aside from the guesses involved pertaining to the number of families, the per cent doubled up, and the number of units we expect to be available, the chief value of the study lies in pointing out the improbability of the optimistic forecasts made by many of our housing experts. It should be very interesting in a few years to bring this study up to date and compare these charts with what has actually taken place.

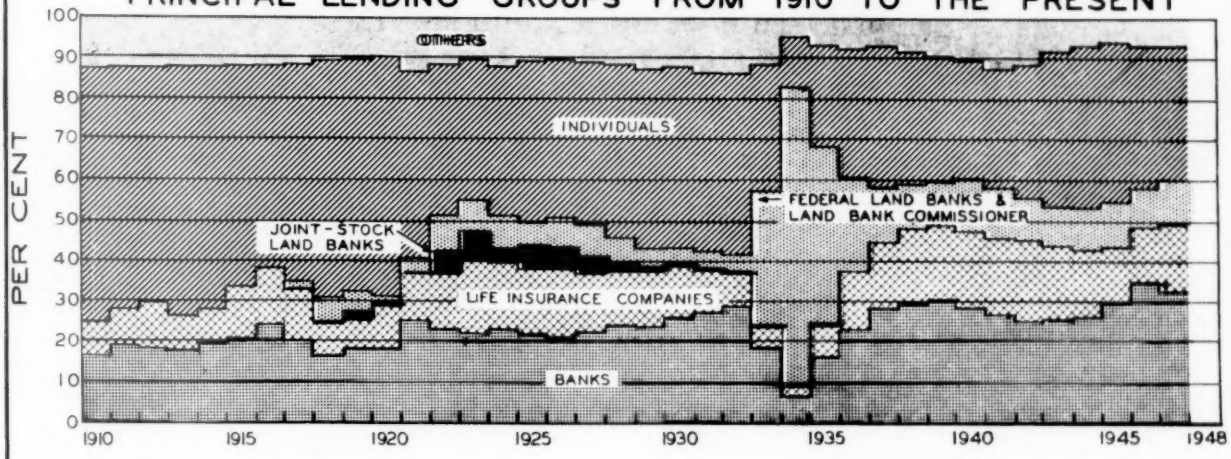
MORTGAGES BY TYPE OF LENDER

WE have had many requests to publish the three charts on the opposite page. These charts show the changes which have come about in mortgage lending on farms from 1910 to the present and on nonfarm properties from 1939 to the present.

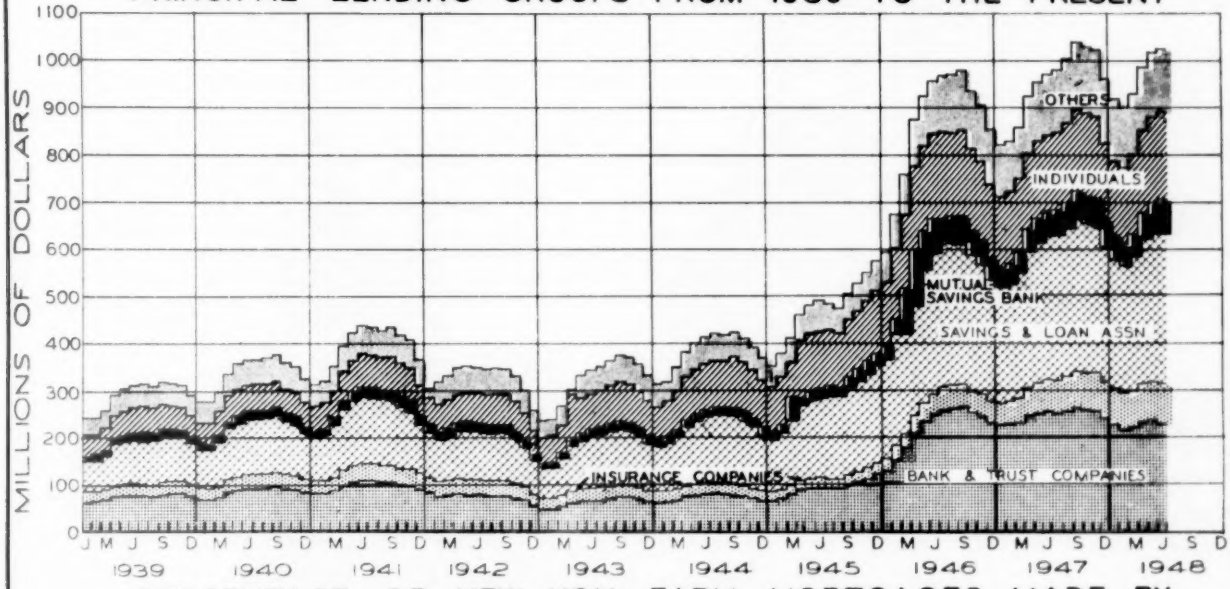
In 1910, 62% of the mortgage financing of farms was done by individuals. By 1934 this figure had dwindled to around 7%. Since then, individual lenders have increased their participation in farm financing quite rapidly, and in 1944 and 1945 almost 40% of farm mortgages were made by individuals. In the past two years, however, their activity has fallen off a bit and in 1947 (the last available figure), only 33.6% were financed by individuals. Quite naturally, Land Bank loans have dropped abruptly from their 1934 peak. Within a few years we may expect financing from this source to increase again.

Nonfarm mortgages have climbed to monumental proportions with all lending groups participating actively. After reaching a low point, percentagewise, during the war, nonfarm financing by banks climbed to a new high of 27.7% during late 1946, but has been falling steadily since then. This drop in the percentage of nonfarm financing done by banks has been offset by the increasing percentage of loans handled by insurance companies.

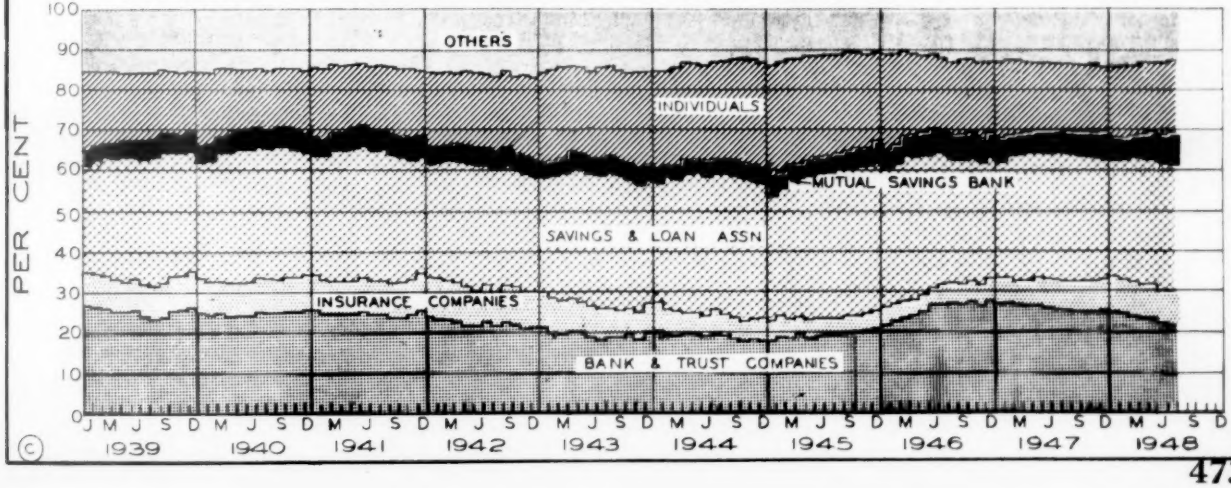
PERCENTAGE OF NEW FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1910 TO THE PRESENT



DOLLAR VOLUME OF NEW NON-FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1939 TO THE PRESENT



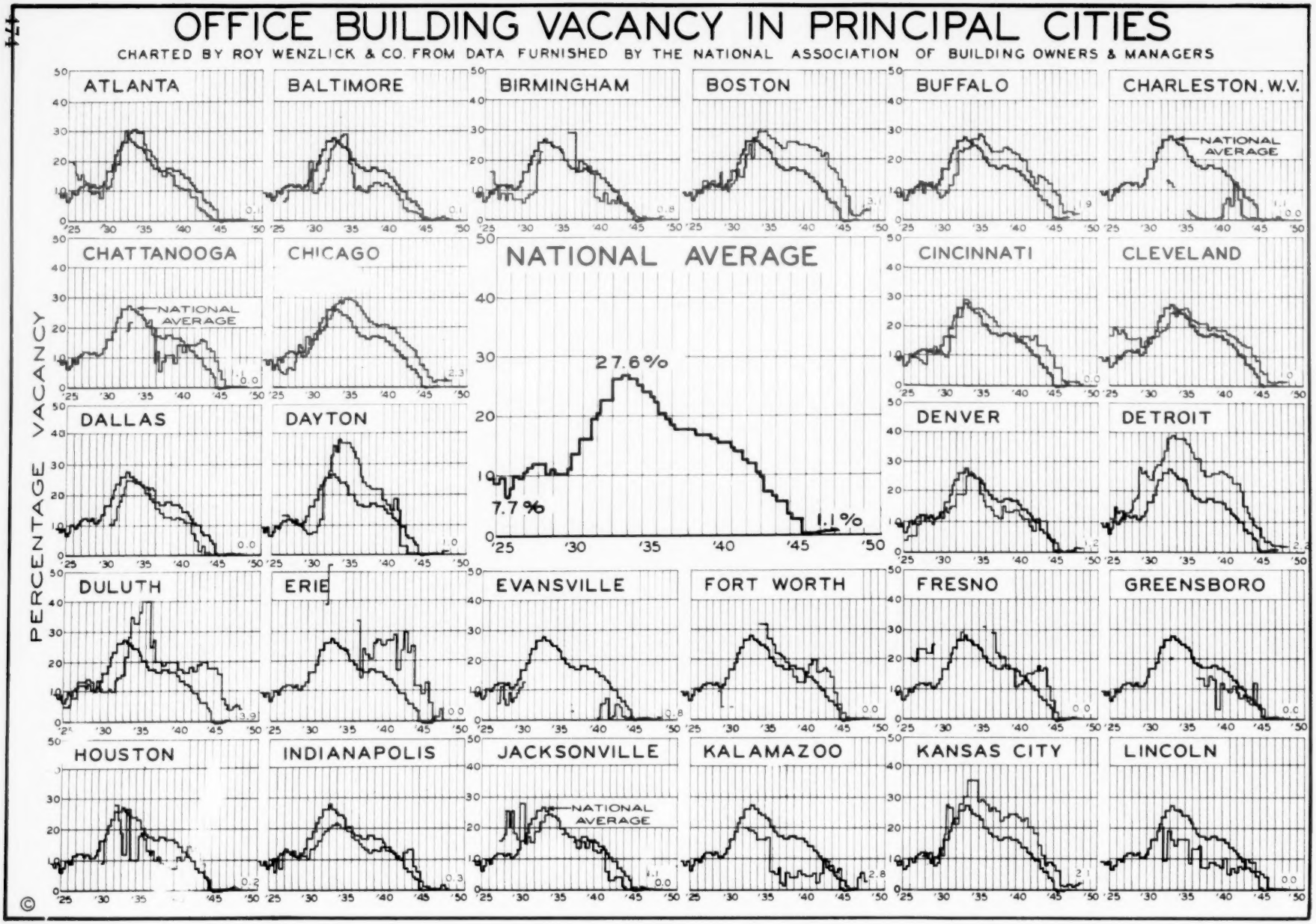
PERCENTAGE OF NEW NON-FARM MORTGAGES MADE BY PRINCIPAL LENDING GROUPS FROM 1939 TO THE PRESENT



©

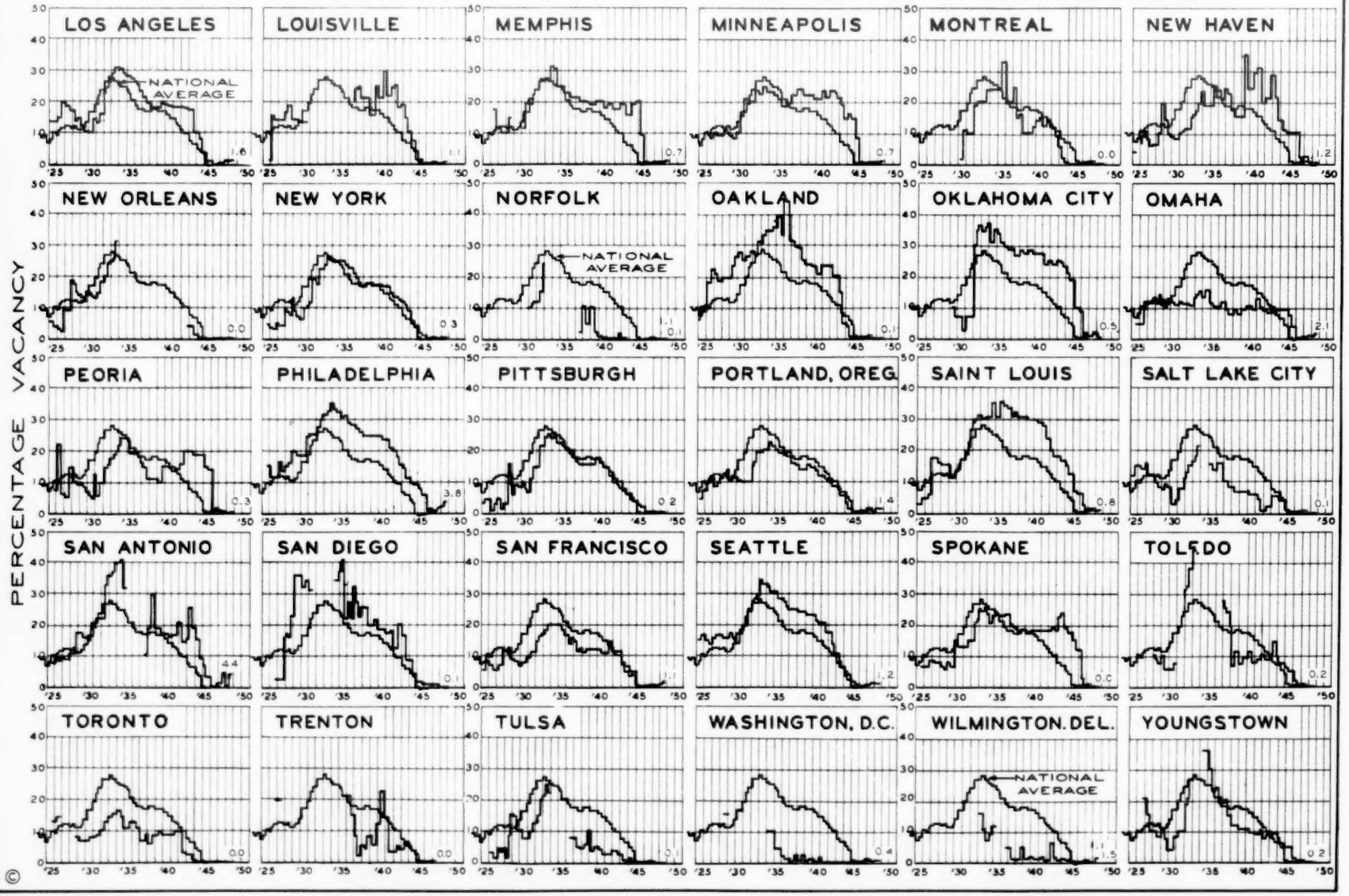
OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



©

OFFICE BUILDING VACANCY

SINCE June 1947 the office building vacancy index has been creeping up very slowly. In fact, the increase has been so slow as to be practically indiscernible. In June 1947, nearly 18 months ago, the index showed a vacancy of 0.86% - it has now risen to 1.1%. In other words, office space is still 98.9% occupied.

As we reported in June 1947, this vacancy increase is caused by the various governments (local, State, and Federal) giving up large quantities of office space. Actually, the amount of space occupied by commercial tenants is increasing.

Since it is still unprofitable in most cities to build new office buildings, and business is still expanding (although at a slower rate), we do not expect any quick rise in office building vacancy. There is also some chance, inasmuch as the Democrats are again firmly in the saddle, that the Federal government will once more begin to expand the space it occupies in office buildings. Government occupancy now amounts to less than 6-1/2% of total office space. Two years ago this figure was approximately 9%.

THE FUTURE OF THE FORECLOSURE RATE

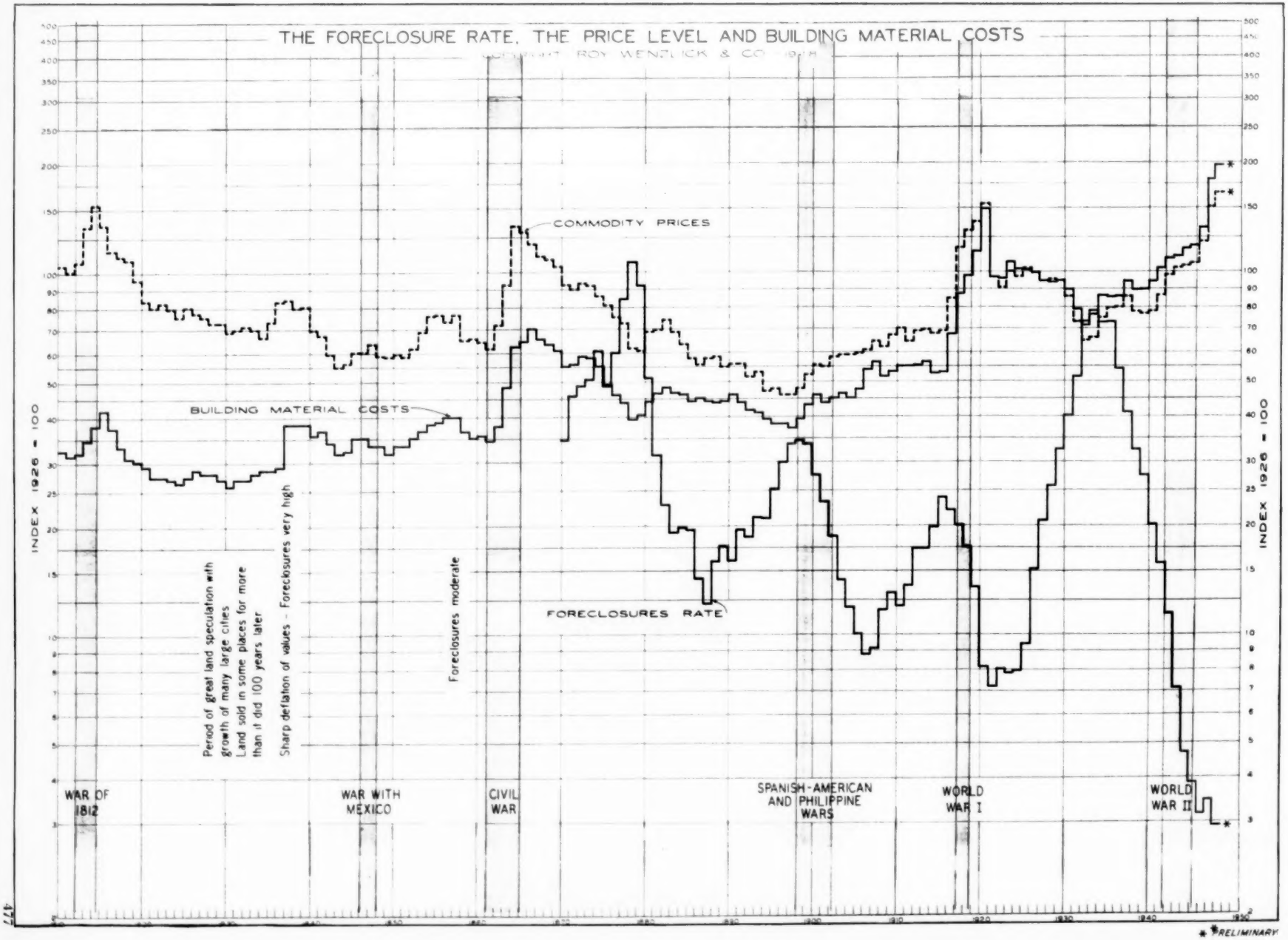
AT no time in the measured past (back to 1870) have foreclosures been so low as during the present boom. There are several reasons for this low rate, among them, easier financing, lower interest, and higher incomes. Another very important contribution toward a low foreclosure rate is the cost of construction, which has been rising almost continuously for the past sixteen to seventeen years.

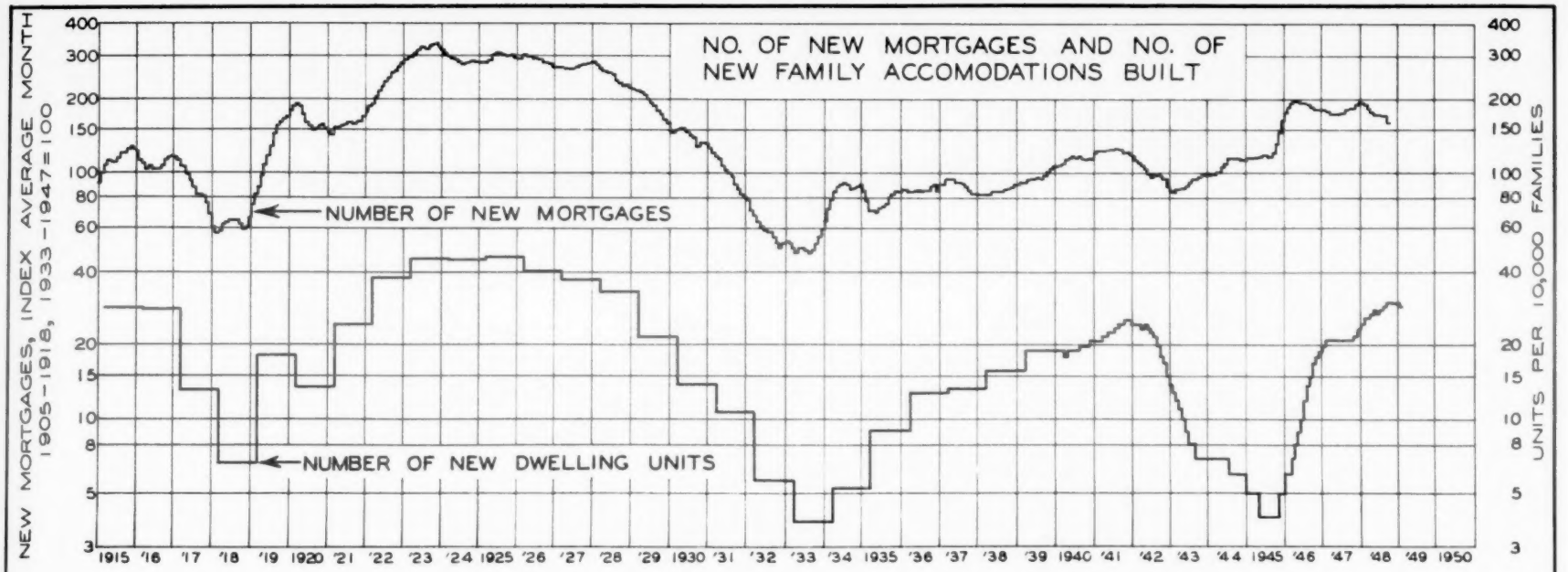
The chart on the opposite page shows the trend of commodity and building material prices from 1810 to the present, and the trend of the foreclosure rate from 1870 to the present. Although measured data are not available, history reveals that in 1837, some 23 years after the War of 1812, foreclosures were very high, and that during the period following our war with Mexico they were only moderately high. The other two peaks in the foreclosure trend came in 1878 and in 1933. These three peaks, 1837, 1878, and 1933, all followed wars during which our economy was afflicted with severe price inflation.

Whenever the general price level has risen in the past, the cost of living has increased at the same time. During every period in which building costs have risen, foreclosures have dropped. This is true because in a period of rising rents and real estate values, it is relatively easy to meet interest payments, and with equities above the mortgages increasing, there is no incentive to unload or get out from under. Also, if the original owner can no longer carry the property, he can usually avoid foreclosure, by selling on the rising market.

During a period of falling prices, the opposite is true. Home owners frequently find that they owe more on their property than it would cost to reproduce it new. Under these circumstances many home owners become convinced that it doesn't pay to own their homes, or would rather own a new one for less than they owe on their present one, and will generally make no great effort to keep up the payments. Home

(cont. on page 479)


THE FORECLOSURE RATE, THE PRICE LEVEL AND BUILDING MATERIAL COSTS
COPYRIGHT ROY WENZLICK & CO 1941
COMMODITY PRICES
BUILDING MATERIAL COSTS
FORECLOSURES RATE
INDEX 1926 - 100
Period of great land speculation with growth of many large cities
Land sold in some places for more than it did 100 years later
Sharp deflation of values - Foreclosures very high
Foreclosures moderate
WAR OF 1812
WAR WITH MEXICO
CIVIL WAR
SPANISH-AMERICAN AND PHILIPPINE WARS
WORLD WAR I
WORLD WAR II
* PRELIMINARY



NEW MORTGAGE INDEX AND RESIDENTIAL CONSTRUCTION RATE

THE chart above showing the trend of new mortgages and residential construction, helps to point out how the sources of new mortgages change from time to time, and how neither of the two main sources - new construction and sale of older dwellings - should be neglected when filling the mortgage portfolio.

Of course, this is a fact that most mortgage lenders already know, but it is interesting to see it outlined in chart form.

The black line showing the new mortgage activity began moving upward during 1943 and continued to do so until early 1946. During the first two and a half years of this period the rate of residential construction was falling sharply. Obviously the increase in new mortgages was caused by rising activity in the sale of older buildings. Later on in 1945, and early 1946, mortgage activity began to receive additional impetus from the rapidly expanding construction of new dwelling units. As pointed out elsewhere in this bulletin, when mortgage activity began to lag in 1947, government action toward still more easy credit caused some recovery in the mortgage volume by making funds accessible to families who had formerly been "out of the market."

Although residential construction volume for the year ending in May 1948 exceeded the amount built during the calendar year of 1925, the rate per 10,000 nonfarm families is far below that of the last housing boom. Insofar as volume is concerned, the 12-month period from August 1947 through July 1948 is probably the record year for nonfarm residential starts. During that period the housing industry started 979,600 units in contrast to 937,000 started during the record calendar year of 1925. At the rate housing starts have fallen off during October, there is considerable doubt as to whether the calendar year 1948 will equal the record set in 1925.

THE FUTURE OF THE FORECLOSURE RATE

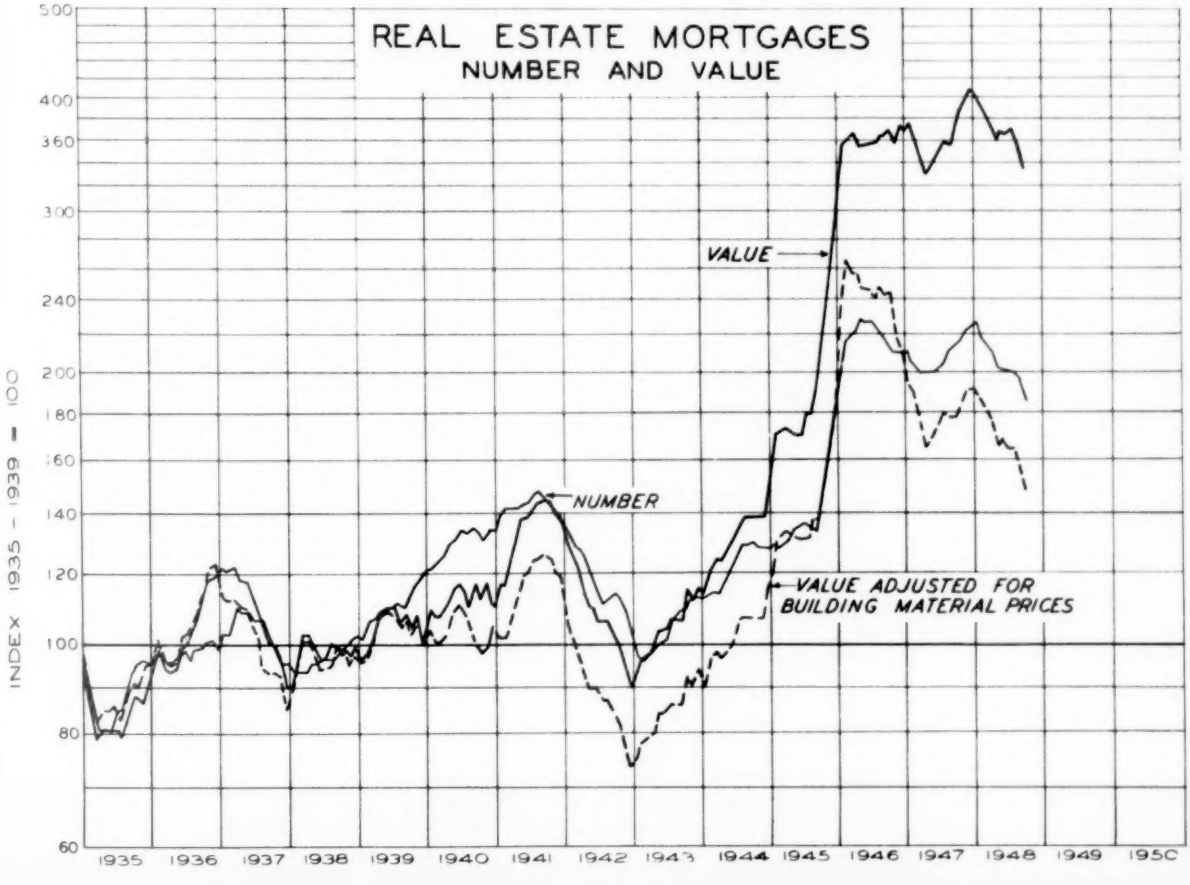
(cont. from page 476)

owners are usually unable to sell their equities because in most cases they have been wiped out by falling values. In the past these conditions have always led to a rapidly rising foreclosure rate.

There is certainly no reason to believe that this doleful tale will not be repeated. We have had the greatest price and credit inflation in our history, and the dollar volume of mortgages is at an all-time peak. When building costs begin to fall, as they certainly will, foreclosures will start their rise. Whether or not the coming "boom" in foreclosures will approach the magnitude of the three previous peaks will depend in great measure on the drop taken by building costs.

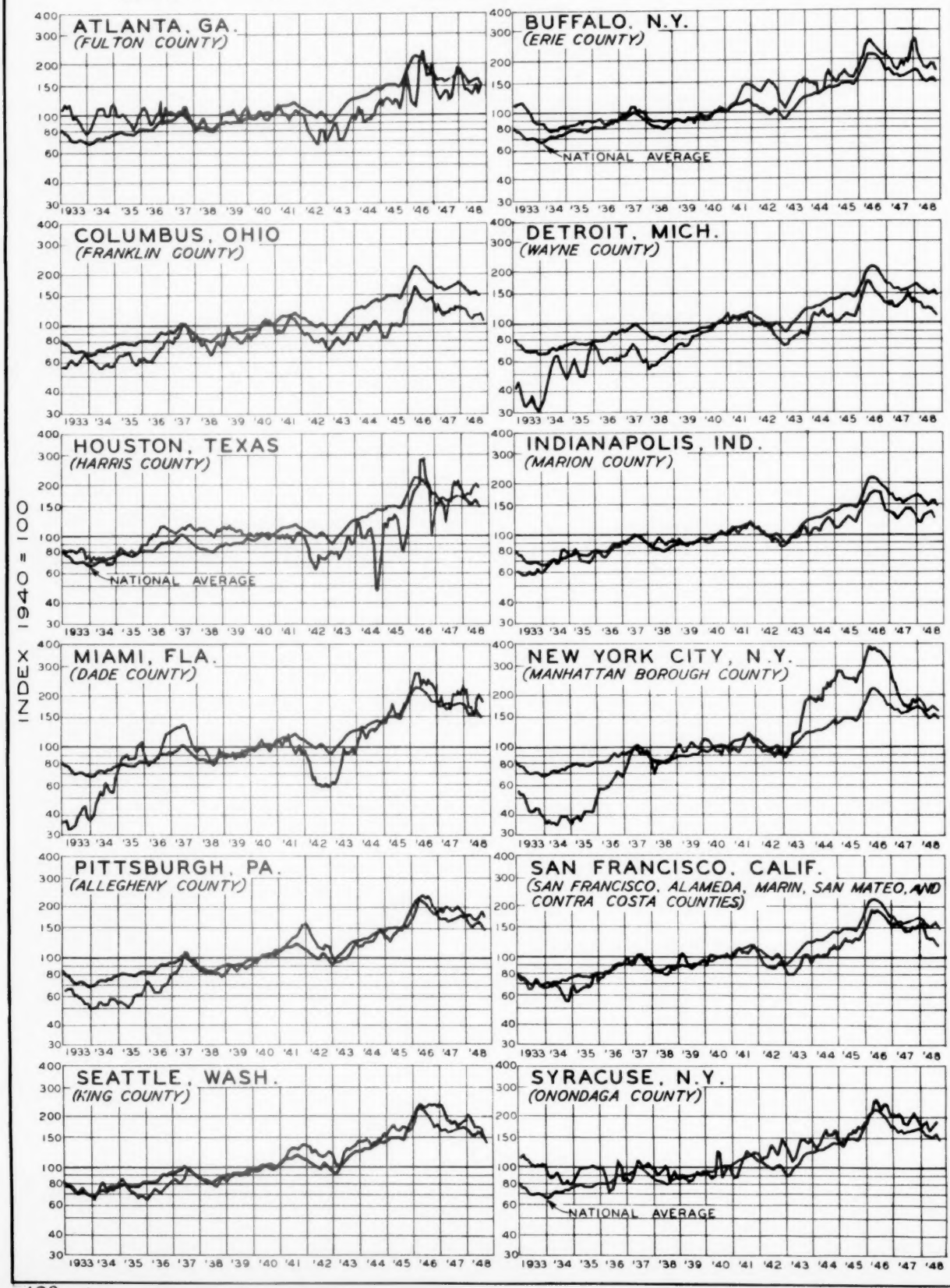
REAL ESTATE MORTGAGES

THE chart below shows the number of real estate mortgages (black line) and their total value (red line) from 1935 to the present. The dotted red line shows the value of these mortgages, adjusted for building material prices. The number of mortgages reached a peak about the middle of 1946, just about the same time as did the real estate activity cycle. The decline following this was arrested by opening the sluice gates of government-guaranteed money and subsequent activity took the number of mortgages to a second peak early in 1948. Since then, mortgage activity has dropped more precipitously than before, and we will be very much surprised if it regains its former peak during the remaining life of the boom.



REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

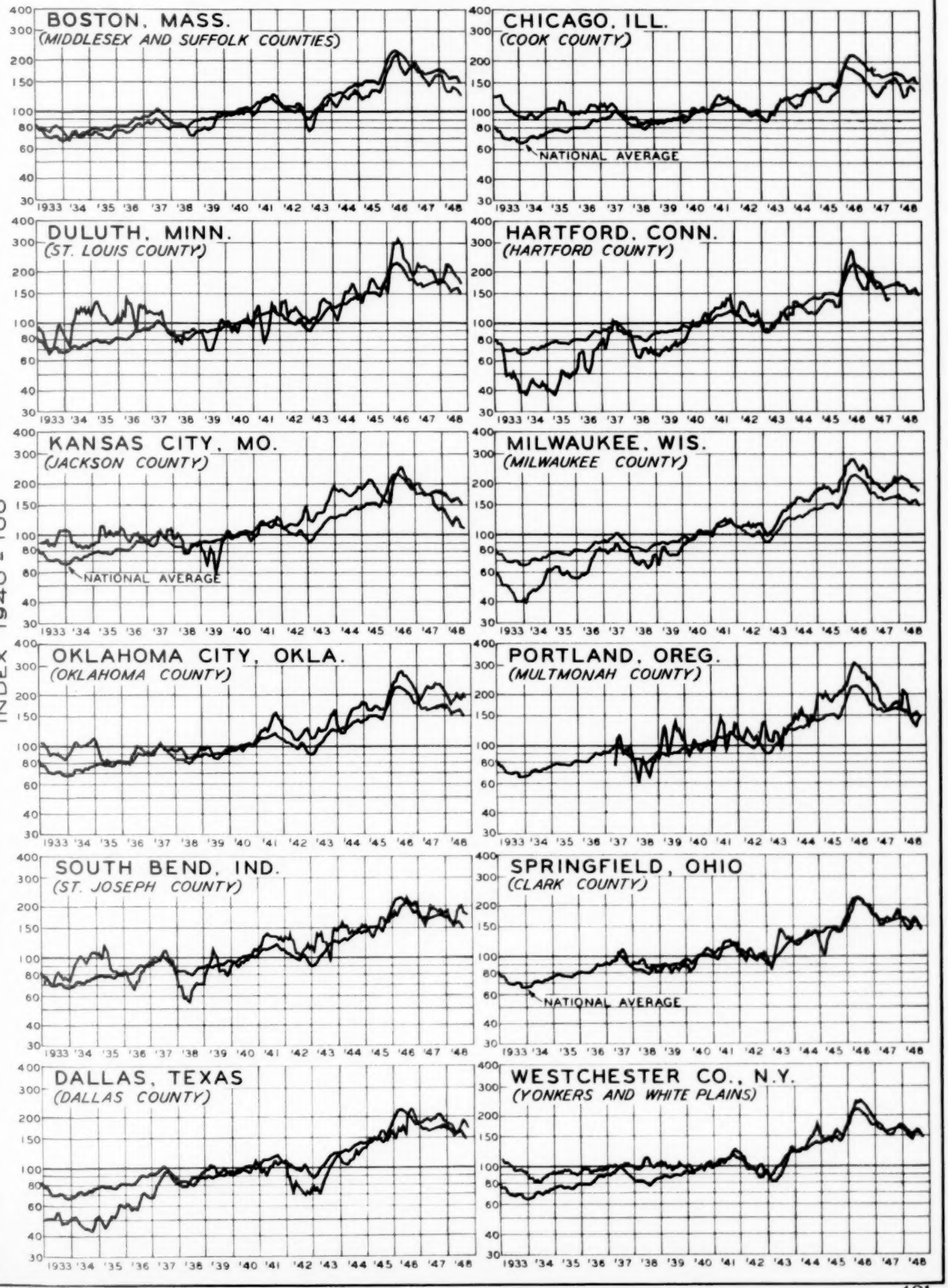
COPYRIGHT 1948 ~ ROY WENZLICK & CO. ~ SAINT LOUIS

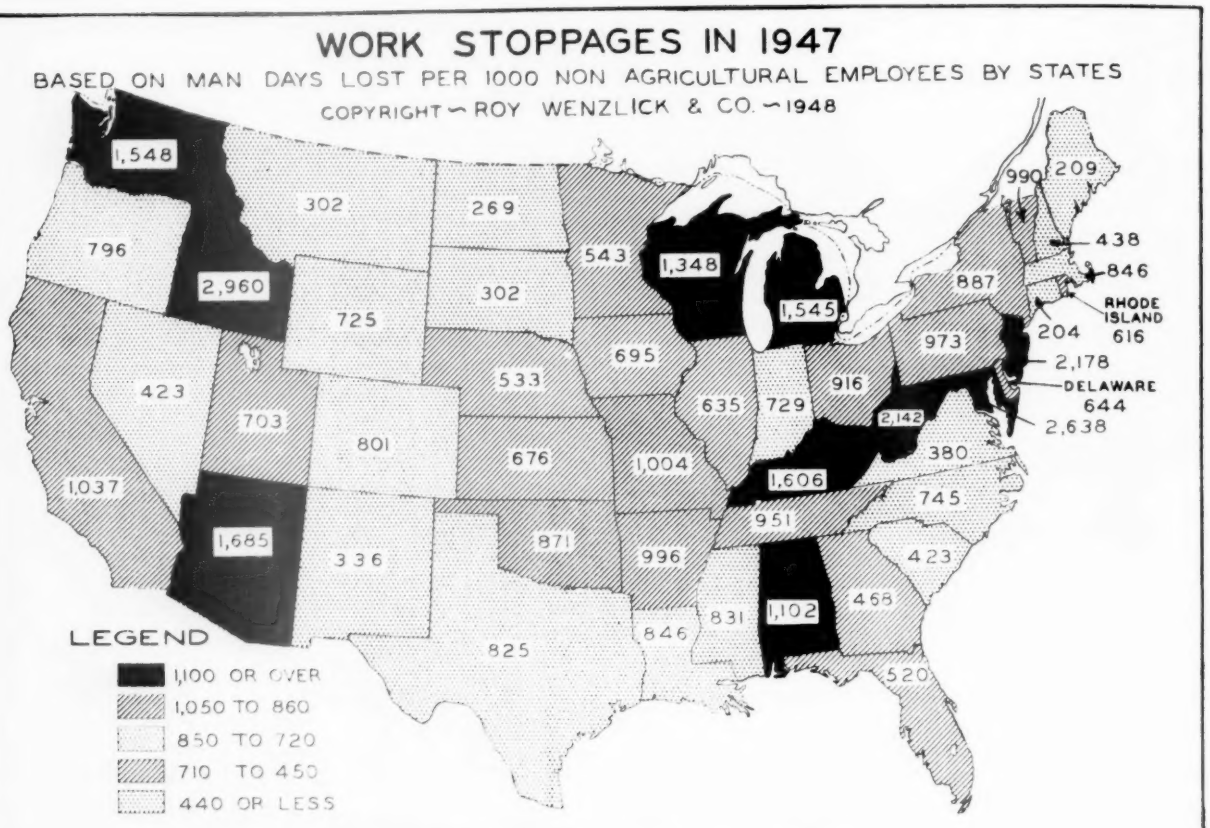


REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

COPYRIGHT 1948 ~ ROY WENZLICK & CO. ~ SAINT LOUIS

INDEX 1940 = 100





WORK STOPPAGES IN 1947

THE map at the top of the page shows the number of man days lost per 1000 non-agricultural employees during 1947 in the various States. The States are also ranked by color and shading into 5 groups. The top group, those States having the highest number of man days lost per 1000 non-agricultural employees, were Idaho, with 2960 man days lost (2.96 man days per worker); Maryland, 2638; New Jersey, 2178; West Virginia, 2142; Arizona, 1685; Kentucky, 1606; Washington, 1548; Michigan, 1545; Wisconsin, 1348; and Alabama, 1102. In all fairness to the State of Idaho, the reason for its high rank is its comparatively small number of non-agricultural workers. Insofar as the number of work stoppages is concerned, there were only 7, involving a total of 5300 workers.

Maryland owes its position in the top ten to 1 big strike involving 13,200 transportation equipment workers, which accounted for well over 1/2 of the man days lost in that State. This same group struck 4 times in New Jersey and, coupled with 8 other strikes in communication, transportation and public utilities, accounted for over three-fourths of the man days lost in that State. The coal miners' strike accounted for large portions of the days lost in Alabama, Kentucky and West Virginia. Michigan had 15 strikes in the construction industry and 11 strikes in transportation, communication, and other public utilities to account for almost one-half of the man days lost. In Washington the two groups causing over one-half of the man days lost were the workers in lumber and wood products, and those engaged in transportation, communication and other public utilities. In Wisconsin, 5 strikes of machinery (excluding electrical) workers accounted for almost 60 per cent of the man days lost. Another 23 per cent was lost in the strikes by the transportation, communication, and public utilities workers.